

## **Sewer and Water Infrastructure Provisions of the American Recovery and Reinvestment Act of 2009 (Recovery Act)**

### **Frequently Asked Questions**

**Q: Will the Recovery Act fund improvements to Michigan's sewer and water infrastructure?**

**A:** Nationwide, the Recovery Act provides \$4 billion for Clean Water State Revolving Funds (SRF) and \$2 billion for Drinking Water Revolving Funds (DWRf).  
○ The federal Clean Water State Revolving Fund targets water quality protection projects for wastewater treatment and nonpoint source pollution control projects.  
○ The federal Drinking Water Revolving Fund finances significant public investments to install, upgrade, or replace drinking water systems that ensure a healthy and safe drinking water supply across the country.

**Q: What are the requirements for sewer and water infrastructure projects funded by the Recovery Act?**

**A:** The Recovery Act requires that:

1. Funds must be spent on projects included on the United States Environmental Protection Agency (U. S. EPA) approved state Priority Project List (PPL) for the SRF and DWRf that are ready to proceed to construction within 12 months of the date of enactment of the Recovery Act (February 17, 2009). Further, the new law requires that the states use their existing SRF and DWRf processes to administer the funds, including determining project eligibility.
2. States use at least 50 percent of the new Recovery Act funding to provide additional project subsidization in the form of forgiveness of principal, negative interest loans, or grants.
3. At least 20 percent of the funding must be spent by the states for SRF and DWRf projects to address "green" infrastructure, water or energy efficiency improvements, or other environmentally innovative projects.
4. Projects funded by the Recovery Act must comply with the federal Davis – Bacon Act "prevailing wage" requirements, and requirements that "all of the steel, iron and manufactured goods" used in the project be produced in the United States – a provision known as the "Buy American" requirement.

**Q: How will the sewer and water infrastructure provisions of Recovery Act benefit Michigan?**

**A:** In the next twelve months, the new Recovery Act funding will enhance Michigan's ability to work with local communities to:

1. Promote good-paying jobs for Michigan construction workers that build needed improvements to our wastewater and drinking water systems;

2. Reduce taxpayer and user costs for financing sewer and drinking water systems;
3. Support Michigan and United States producers of steel, iron and other manufactured goods used in the construction and repair of sewer and drinking water systems;
4. Sustain the infrastructure required by Michigan communities and businesses;
5. Improve conservation of water and energy used in Michigan; and
6. Protect the health of our citizens, our Great Lakes and our vast water resources.

**Q. How much funding will Michigan receive under these programs?**

**A:** Michigan is expected to receive \$168.5 million for SRF and \$67.5 million for DWRP in fiscal year (FY) 2009 from the Recovery Act. This funding is in addition to the FY 2009 funding anticipated for appropriation to these two programs.

**Q. How does Michigan plan to distribute the funding to communities?**

**A.** In order to most effectively comply with federal Recovery Act timeframes and requirements, Michigan will make available a portion of the new funding to each SRF and DWRP project awaiting final funding on the FY 2009 Project Priority List (PPL) as of the effective date of the Recovery Act. Use of this list in awarding Recovery Act funds ensures that the projects:

- Meet state and federal eligibility criteria;
- Are approved at the local level;
- Are properly designed; and
- Are “shovel ready” to proceed upon receiving funds.

**Q: Which additional subsidization option is Michigan planning to use and why?**

**A.** Michigan's is planning to provide the additional subsidization through the principal forgiveness option. Principal forgiveness, negative interest rate loans, and grants, are slightly different mechanisms which provide the same result to the recipient. This plan achieves the results intended and required by the Recovery Act: a reduction in the cost of financing an SRF or DWRP project and maximizing the time available to communities to meet application and program deadlines and requirements so projects are underway within the next 12 months. Further, Michigan's existing SRF and DWRP loan programs provide for forgiveness of principal without statutory modification, and without requiring communities to comply with federal grant procurement requirements, allowing Recovery Act funds to be efficiently distributed to communities.

**Q: Who will receive the principal forgiveness and how much will they receive?**

**A.** For the remainder of FY 2009 and the first quarter of FY 2010, Michigan SRF projects will be offered Recovery Act funding through principal forgiveness of approximately 23% of the total loan request for the project. The remainder of the tendered SRF loan would be funded through traditional SRF loan funds.

For the same period, Michigan DWRf projects will be offered Recovery Act funding through principal forgiveness of approximately 40% of the total loan request for the project. Michigan DWRf loans will be entirely Recovery Act supported, both the standard loan portion and the principal forgiveness portion.

**Q: How will the process work?**

**A.** Michigan's existing and successful SRF and DWRf program is administered by the Department of Environmental Quality (DEQ). Federal law requires the preparation of annual Intended Use Plans (IUP) to detail the process used by the state to award low interest loans for the next fiscal year, and to specify the potential projects to be funded. This results in creation of the PPL, which is the state priority list referenced in the Recovery Act. The U.S. EPA has just issued guidance on the qualification requirements for the SRF and DWRf projects, including some new guidelines for the green projects, which have been posted on the DEQ website.

The DEQ is in the process of contacting communities eligible for FY 2009 SRF and DWRf loans to determine if they wish to seek funding available through the Recovery Act. Funding will ultimately be awarded to those communities that are able to comply with the federal requirements and successfully complete the application process and close on a loan by the specified deadlines.

The DEQ will enter binding loan commitments with applicants on a quarterly basis until all Recovery Act funds are committed, but no later than within 12 months of enactment of the Recovery Act.

**Q: What options exist for communities to receive Recovery Act funding that do not have a project on the FY 2009 PPL?**

**A.** Recovery Act funding for green projects in Michigan will be available to the first quarter projects on the FY 2010 PPL. DEQ will be soliciting green projects with May 1, 2009, DWRf, and July 1, 2009, SRF, deadlines for submittal. If all FY 2009 Recovery Act funding is not obligated to FY 2009 projects by the end of FY 2009, the rest of those funds will be obligated to First Quarter FY 2010 projects on the PPL.

There will also be expanded availability of non-Recovery Act SRF and DWRf funding for communities to access for FY 2010.

Michigan municipalities that are not included on the FY 2009 PPL are encouraged to apply as soon as possible for standard program and/or Recovery Act funding for FY 2010. Communities are encouraged to investigate and prepare project plans for submittal to the SRF or DWRF pursuant to the existing process in order to access these funds and provide significant upgrades to their infrastructure systems which will benefit the quality of life for their residents, our environment and the quality of our Great Lakes.

- The FY 2010 deadline for communities to submit a project plan for the DWRF is May 1, 2009.
- The FY 2010 deadline for communities to submit a project plan for the SRF program is July 1, 2009.

**Q. What is the timing and process for state receipt of funding process?**

- A.** The DEQ must apply to the U.S. EPA for SRF and DWRF Capitalization Grants. The final U.S. EPA guidance requires states to submit an amended Intended Use Plan (IUP) for the SRF and DWRF to detail the method and process that will be used to award the "additional subsidization" through principal forgiveness, negative interest loans, or grants. Parts 53 SRF and 54 DWRF of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended, (NREPA), require a public hearing on each year's IUP - which was done for the current FY 2009 PPL/IUPs now on file with U.S. EPA. The DEQ will public notice amended IUPs detailing the process for additional subsidization and distribution of the Recovery Act funding, and will take public comment on the amended IUPs.

**Q. What is the role of the Legislature in the process for distribution of Recovery Act SRF and DWRF funds?**

- A.** The Legislature must approve the appropriation of the Recovery Act funds for SRF and DWRF. Legislative approval is not required for approval of the PPL. The Governor will be submitting a supplemental for approval of all Recovery Act funds within the month.

Further information about each program and the key deadlines will be made available on the DEQ website. In the meantime, contact may be made with staff of the Revolving Loan and Operator Certification Section at 517-373-2161.